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C O N F I D E N T I A L SECTION 01 OF 02 JEDDAH 000288

SIPDIS

DEPARTMENT FOR NEA/ARP (HARRIS)

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TAGS: [ECON](#) [FIND](#) [EINV](#) [SA](#)
SUBJECT: KING ABDULLAH ECONOMIC CITY PROJECT ON LIFE SUPPORT

REF: 08 JEDDAH 0414

JEDDAH 00000288 001.2 OF 002

Classified By: CG Martin R. Quinn for reasons 1.4 (b) and (d)

¶1. (C) Summary. The King Abdullah Economic City (KAEC) megaproject has hit a wall. The project depended on outside investment, with the developer, Emaar KSA, providing the infrastructure and handling project management. Since the slowdown caused by the global financial crisis, investors have held back. The result is that the project is very much behind schedule. Plans articulated as recently as January for thousands of residents to move in and schools to open by September have been put on ice. Only a handful of small office and multi-unit residential building, all near the beach, are completed. With few if any major investors signing on to invest in the city, Emaar may soon be squeezed to the point of bowing out or being forced out involuntarily. Rumors and speculation are rife. End summary.

KAEC megaproject is in serious trouble

¶2. (SBU) Construction companies working at KAEC tell of payment slowdowns and non-payment of invoices by Emaar, putting them in the unexpected position of having to lay off staff at what is reputed to be the world's largest private construction project. In June Turner Engineering, a KAEC contractor, told EconOff that they were being paid late and had begun layoffs. The port project at KAEC has also reportedly been delayed, and some in Jeddah believe it will never get off the ground since there is no extant commercial or industrial activity nearby to justify a second port larger than the nearby Jeddah port, a mere 90 minutes away by car to the north.

There is nothing out there

¶3. (SBU) Econoff recently met a Saudi woman who bought a villa at KAEC two years ago. She was asked to come out and finalize the purchase of the property and visited the site for the first time. Though her villa is ready, as are a collection of other units built close to the beach, she said there is nothing else out there now and that under the circumstances she couldn't envision living there. In fact there is no infrastructure, no schools, hospitals, retail establishments, etc. It would be a hardship to reside there even for a few days. (Note that the AEI World Forum, presided over by Helmut Schmidt, was held at KAEC in early May. The organizers re-purposed an office building into a hotel for

the event.)

Government's focus is on KAUST, not KAEC

¶4. (C) On the other hand, the neighboring King Abdullah University of Science and Technology (KAUST) is being worked on 24/7 in a frantic rush to complete construction in time for the September 5 start of classes and the September 23 grand opening. King Abdullah recent visit to the site touched off reports that he was not pleased by its progress. Emaar told EconOff in late 2008 that a significant portion of the laborers had been siphoned off from KAEC to assist with KAUST -- since waiting for approvals to import additional labor would have taken too long. The labor crunch was cited as another contributing factor to the delays at KAEC. But that factor alone cannot account for the failure of KAEC to advance. More critical has been the failure -- in the global economic downturn -- to attract the marquee corporate tenants that are needed to create jobs and lure skilled workers to the distant, desolate desert location.

Rumors that project developer Emaar will be replaced

¶5. (C) ConGen contacts have been speculating for months that KAEC will run out of money and the King will have to rescue it with a direct injection of funds. Rumors have circulated that the Saudi Bin Laden Group or Saudi Aramco will take over the management from Emaar. Each rumor promises an imminent announcement but so far there has been none. Post has heard from credible sources in the business community that the Royal Commission for Jubail and Yanbu has been asked to take over the project from Emaar and that the business community

JEDDAH 00000288 002.2 OF 002

would welcome that development. With three decades of experience in developing infrastructure for industrial cities in Saudi Arabia and with a reputation for understanding private sector investment requirements, the Royal Commission is well-placed to drive the build-out of the physical plant of the city. Whether it has the know-how to develop the modern, high-quality residential communities that Emaar has delivered in Dubai is another story. For now, one contractor speculates that the government is waiting for Emaar to cry uncle and beg to be let off the hook rather than asking them to leave. The latter would likely entail a payment to Emaar for the estimated one billion dollars it has already sunk into the city.

¶6. (C) Comment: Although some in Jeddah credit rumors that the project itself will unravel by the end of August, with Ramadan underway, it seems more likely that the saga will continue to play out for a few more months. While there are reasons to wonder if KAEC eventually may be abandoned, there are examples in Saudi Arabia and other GCC countries of megaprojects that eventually were completed after seemingly insurmountable challenges. While KAEC's near prospects are in doubt, it is probably too early to write it off completely. In all likelihood, as a project which bears the King's name, KAEC will receive additional focus and attention from the Saudi government once KAUST opens in September. End Comment.

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